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Viewing cable 09DHAHRAN234, FORMER SAUDI ARAMCO EXECUTIVE BULLISH ON OIL PRICES

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Reference ID	Created	Released	Classification	Origin
09DHAHRAN234	2009-09-02 13:39	2011-08-30 01:44	CONFIDENTIAL//NOFORN	Consulate Dhahran

Appears in these articles:

<http://www.mcclatchydc.com/2011/05/25/114759/wikileaks-saudis-often-warned.html>

VZCZCXRO6937
PP RUEHDE
DE RUEHDH #0234/01 2451339
ZNY CCCCC ZZH
P 021339Z SEP 09
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 0274
INFO RUEHHH/OPEC COLLECTIVE
RUEHDH/AMCONSUL DHAHRAN 0357

C O N F I D E N T I A L SECTION 01 OF 03 DHAHRAN 000234

NOFORN
SIPDIS

DEPT FOR NEA/ARP (HARRIS/BERNDT), EEB/ESC/IEC (SULLIVAN),
AND INR/EC(WOOD)
DOE FOR DAS HEGBURG

E.O. 12958: DECL: 9/2/2019
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SUBJECT: FORMER SAUDI ARAMCO EXECUTIVE BULLISH ON OIL PRICES

DHAHRAN 00000234 001.2 OF 003

CLASSIFIED BY: Kevin Kreutner, Acting Consul General, EXEC, DOS.

REASON: 1.4 (b), (d)

SUMMARY

¶1. (C/NF) Saudi Aramco's former Executive Vice President, Dr. Sadad al-Husseini (strictly protect), recently commented on the likelihood of oil prices rising sharply over the next couple of years. In his view, the bearish energy analysts arguing that the oil price shocks of last summer are not likely to be repeated anytime soon are making inaccurate assumptions. Dr. al-Husseini maintains that volatile political factors in Venezuela, Nigeria, Iran, Iraq, and Libya are bound to hamper OPEC supply over the next several years. He believes that these political uncertainties, coupled with a rise in demand and increasingly more expensive and difficult production, will once again lead speculators to drive oil prices upwards. END SUMMARY.

FORMER ARAMCO EXECUTIVE: GEOLOGY AND

GEOPOLITICS WILL LEAD TO HIGHER PRICES

¶2. (C/NF) Dr. Sadad Ibrahim al-Husseini manages his own energy consultancy, primarily serving international private equity funds, financial institutions, and energy firms. He is a geologist by training and holds a PhD from Brown University. Dr. al-Husseini retired from Saudi Aramco in March 2004 as Executive Vice President and a member of its Board of Directors. Once appointed to the number two spot at Aramco (Executive Vice President) in 1996, he was widely considered to be the heir apparent for the CEO position. However, when Dr. al-Husseini found out that he was passed over for the top spot allegedly due to his non-Saudi roots (both of his parents are naturalized Saudi citizens of Syrian extraction), he left the national oil company. However, the al-Husseini family enjoys a privileged status with the royal family due to Dr. al-Husseini's father's role as a key advisor to King Abdullah in establishing the Saudi Arabian National Guard.

¶3. (C/NF) Dr. al-Husseini is a well-established contact of Consulate General Dhahran. He frequently offers candid views on the importance of geopolitical factors on energy markets. In previous conversations with EconOff, Dr. al-Husseini predicted that another oil price shock would likely hit sometime in the next year or two. We are forwarding his views below not just on the merits. His access to influential circles, both in the royal family and business sectors, means his opinions on this topic likely both influence and reflect the views of Saudi leaders.

¶4. (C/NF) The following text is Dr. al-Husseini's written response to EconOff countering recent arguments in the press and elsewhere by energy analysts that oil prices are unlikely to rise again to record levels in the next few years. Bracketed text is ours. Begin Dr. al-Husseini's text:

COMMENTS REGARDING "NOT SO BULLISH

CASE FOR ENERGY PRICES"

The commentary that was posted on ftalphaville.ft.com on 08/29/2009 in regards to an article by Edward Morse in Foreign Affairs Magazine is consistent with several similar commentaries that appear to be directed at cooling down what might become overheated energy prices. Michael Lynch in the New York Times of 08/25/2009 is pretty much in the same vein and so are others.

Let's take Edward Morse because Michael Lynch's write-up is totally off the mark.

"Oil prices at \$147 per barrel are the result of a convergence of circumstances that are unlikely to be repeated soon."

Actually this is a very inaccurate assumption. The rising oil prices through 2007 were due to structural factors including population and economic growth, improved standards of living, flattened new capacity exacerbated by severe production declines.

The reference to "disappearance of OPEC spare capacity" is a clear sign of lack of understanding of the industry -- prices were low and demand went up by several million barrels. There is no way to maintain "idle" capacity in the face of low prices and unmitigated demand. This could be the recurring situation today.

The other factors such as "political impediments," "civil disorder," "resource nationalism," "war on Saddam," etc. are not exceptions, but the normal state of affairs throughout the world. We had the Iran/Iraq war, invasion of Kuwait, and liberation of Kuwait since the 1980's. That didn't create \$147 barrels. On the other hand, we can expect the collapse of Mexico's [oil] production, Russian resource nationalism, the meltdown [i.e., increasing decline rates] of the North Sea and Alaska, the drying up of West Africa, and the continued growth of Strategic Environmental Assessments to make oil prices steeper and steeper. Demand destruction will generate any excess supplies in the future, not sustainable growth in [production] capacity. >

The notion that the absence of Saudi production was a major factor driving prices upwards is also in error. A careful look at actual demand for North America, for example, will show that demand was falling off from mid-2007 as prices took a steep turn upwards. Demand destruction was working at higher prices, even though there was some capacity available and commercial OECD inventories to be drawn down.

In any case, Saudi Arabia does not have 12.5 million barrels per day (mbd) in the market today and at 8 mbd, it's certainly not flooding the market. It's the global economy that is setting demand levels and hence oil prices, not Saudi Arabia.

The assumption that OPEC will be at 37 mbd in 2010 is a short-term conclusion. What about incompetence in Venezuela, civil disorder in Nigeria, embargo on Iran, paralysis in Iraq, resource nationalism in Kuwait, freeze in Qatar, delays in UAE, exploration and production failures in Libya and Algeria and a cap in Saudi Arabia (after Manifa)? The question is what happens [with OPEC production capacity] in 2011 and 2012, and aren't people smart enough to see the writing on the wall and follow up with speculation?

So the international oil companies will go into deep water and look for deep water prospects. Given the steep offshore decline rates, they will have to work very hard indeed as they get driven off the continental shelf, into the continental slope and then into the deep ocean basins (where fields are small, recoveries limited and costs keep rising). Again, higher costs lead to higher prices. Even OPEC has run out of cheap oil and they're not even talking about the deep offshore. BP is talking about \$25 billion over 5 years to get Rumaila [oil field in Iraq] up to 2.8 mbd. Kashagan 1 and 2 [in Kazakhstan] now stand at over \$54 billion for about 1 mbd. Costs are rising...

Morse then moves into shale [gas], which has nothing to do with oil and, in any case, is grossly overstated as reserves. Europe would opt to coal not gas, if it has to do something -- European coal reserves are much more abundant than shale gas. Gas prices are down in the U.S. because demand is down, not because there is a sudden surge in supplies.

So the Marcellus shale [in the Northeastern U.S.] contains more gas than the North field of Qatar?

Well that's great, but at even 3.4 million square cubic feet per day (scfd) per well per year its going to take a long time and many wells to replace a field with 900 trillion cubic feet of reported reserves. In the meanwhile, the U.S. consumes 63 billion scfd of gas -- that would require something like 20,000 wells at 3 million scfd per well. Given the very rapid declines, this translates into a requirement to drill something like 10,000 wells per year to stay even.

Morse concludes demand will flatten or go down. Well of course it will -- at higher prices, the only serious and near term option is greater energy efficiency.

15. (C/NF) End Dr. al-Husseini's text.

COMMENT

16. (C/NF) Dr. al-Husseini's text may indeed reflect Saudi thinking on oil markets, particularly their sensitivity to being blamed for high oil prices. Hence, he stressed other potential drivers of price volatility. His skepticism on non-OPEC supplies and on the potential for non-traditional energy supplies is also noteworthy.
KREUTNER